



Gamagara Municipality

Annual Financial Statements
for the year ended 30 June 2018

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Mayoral committee

Executive Mayor

Councillors

Hon. Cllr. O.E. Hantise

Cllr. D.P. Moyo

Cllr. M.F. Nqume

Cllr. A.J. Morwe

Cllr. G.J. Esau

Cllr. M.C. Skeiman

Cllr. H. du Plessis

Cllr. A. Booysen

Cllr. M.K. Orpen

Cllr. B.P. Lekgadi

Cllr. N.S. Magagane

Cllr. C.V. Joseph

Cllr. H.J. Fourie

Grading of local authority

GRADE 2

Chief Finance Officer (CFO)

N.M. Grond

Registered office

Civic Centre

Cnr Hendrik Van Eck & Frikkie Meyer Rd

Kathu

8446

Postal address

PO BOX 1001

Kathu

8446

Bankers

First National Bank

Standard Bank

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Approval of Financial Statements	3
Certification of Remuneration of Councillors	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 12
Accounting Policies	12 - 29
Notes to the Annual Financial Statements	30 - 71
Appendixes:	
Appendix A: Schedule of External loans	72
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	73

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Approval of Financial Statements

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

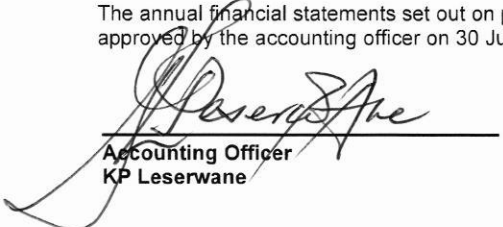
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Gamagara Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Gamagara Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2018 and were signed on its behalf by:



Accounting Officer
KP Leserwane

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Certification of Remuneration of Councillors

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



KP LESERWANE
MUNICIPAL MANAGER

31 August 2018

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	9	564,603	1,099,607
Operating lease asset	7	49,882	65,855
Receivables from non-exchange transactions	10	17,959,649	7,363,762
Receivables from exchange transactions	11	35,468,005	24,466,171
Cash and cash equivalents	12	46,604,082	4,073,614
		100,646,221	37,069,009
Non-Current Assets			
Investment property	3	206,169,270	209,870,120
Property, plant and equipment	4	942,870,318	923,133,177
Intangible assets	5	1,044,438	1,924,996
Heritage assets	6	74,581	74,581
		1,150,158,607	1,135,002,874
Total Assets		1,250,804,828	1,172,071,883
Liabilities			
Current Liabilities			
Other financial liabilities	15	11,411,802	11,132,922
Finance lease obligation	13	3,291,568	2,182,889
Payables from exchange transactions	17	201,137,455	91,088,647
Payables from non-exchange	18	147,232,454	69,991,808
VAT payable	19	12,417,301	4,508,145
Consumer deposits	20	4,271,636	4,455,026
Unspent conditional grants and receipts	14	14,301,989	37,523,775
Provisions	16	39,098,548	31,261,499
		433,162,753	252,144,711
Non-Current Liabilities			
Other financial liabilities	15	18,896,487	16,661,985
Finance lease obligation	13	1,455,810	4,737,443
Employee benefit obligation	8	44,569,865	43,456,648
		64,922,162	64,856,076
Total Liabilities		498,084,915	317,000,787
Net Assets		752,719,913	855,071,096
Accumulated surplus		752,719,913	855,071,101

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	22	155,533,441	219,973,941
Rental of facilities and equipment	23	468,781	944,593
Interest received (trading)		-	248,055
Agency services		5,184,188	2,395,271
Other income	24	3,295,003	3,357,226
Total revenue from exchange transactions		164,481,413	226,919,086
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	36,462,868	441,057,476
Licences and Permits (Non-exchange)		490,102	517,374
Transfer revenue			
Government grants & subsidies	26	84,181,885	47,587,776
Public contributions and donations	27	25,442,694	45,954,082
Fines, Penalties and Forfeits		243,476	383,992
Total revenue from non-exchange transactions		146,821,025	535,500,700
Total revenue	21	311,302,438	762,419,786
Expenditure			
Employee related costs	28	(130,506,873)	(118,738,026)
Remuneration of councillors	29	(5,109,321)	(3,540,282)
Depreciation and amortisation	30	(44,063,494)	(54,625,120)
Impairment loss/ Reversal of impairments	31	-	(434,576,240)
Finance costs	32	(12,635,552)	(10,952,964)
Lease rentals on operating lease		(3,524,953)	-
Debt Impairment		12,199,569	-
Bulk purchases	33	(128,658,730)	(115,923,100)
Contracted services	34	(50,610,143)	(8,588,283)
Transfers and Subsidies		(5,381,749)	(2,253,913)
Loss on disposal of assets and liabilities		-	(440,847)
Fair value adjustments		(2,211,174)	(3,598,114)
General Expenses	35	(34,481,636)	(65,660,827)
Repairs & Maintenance	4	(8,669,567)	(15,211,545)
Total expenditure		(413,653,623)	(834,109,261)
Deficit for the year		(102,351,185)	(71,689,475)

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	916,287,512	916,287,512
Adjustments		
Correction of errors	10,473,064	10,473,064
Balance at 01 July 2016 as restated*	926,760,576	926,760,576
Changes in net assets		
Surplus for the year	(71,689,475)	(71,689,475)
Total changes	(71,689,475)	(71,689,475)
Balance at 01 July 2017	855,071,098	855,071,098
Changes in net assets		
Surplus for the year	(102,351,185)	(102,351,185)
Total changes	(102,351,185)	(102,351,185)
Balance at 30 June 2018	752,719,913	752,719,913
Note(s)		

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Property Rates		36,462,868	59,220,423
Services Charges		155,533,441	194,536,493
Grants		76,484,472	67,373,957
Other receipts		8,947,972	7,606,932
Other cash item		110,358,157	7,960,442
		387,786,910	336,698,247
Payments			
Employee costs		(130,506,873)	(115,520,665)
Suppliers		(134,027,398)	(191,350,255)
Finance costs		(9,237,460)	(6,104,894)
Remuneration of Councillors		(5,109,321)	(3,540,282)
		(278,881,052)	(316,516,096)
Net cash flows from operating activities	38	108,905,858	20,182,151
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(65,316,396)	(25,433,753)
Proceeds from sale of property, plant and equipment	4	-	532,207
Proceeds from sale of investment property	3	1,998,670	-
Purchase of other intangible assets	5	-	(124,185)
Net cash flows from investing activities		(63,317,726)	(25,025,731)
Cash flows from financing activities			
Repayment of other financial liabilities		-	(910,768)
Finance lease payments		(5,571,046)	(4,088,698)
Net cash flows from financing activities		(3,057,664)	(4,999,466)
Net increase/(decrease) in cash and cash equivalents		42,530,468	(9,843,046)
Cash and cash equivalents at the beginning of the year		4,073,614	13,916,660
Cash and cash equivalents at the end of the year	12	46,604,082	4,073,614

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	266,091,036	-	266,091,036	155,533,441	(110,557,595)
Rental of facilities and equipment	438,000	-	438,000	468,781	30,781
Agency services	2,000,000	-	2,000,000	5,184,188	3,184,188
Other income	2,488,500	14,053,952	16,542,452	-	(16,542,452)
Other income - (rollup)	-	-	-	3,295,003	3,295,003
Total revenue from exchange transactions	271,017,536	14,053,952	285,071,488	164,481,413	(120,590,075)

Revenue from non-exchange transactions

Taxation revenue

Property rates	58,083,343	-	58,083,343	36,462,868	(21,620,475)
Licences and Permits (Non-exchange)	300,000	-	300,000	490,102	190,102

Transfer revenue

Government grants & subsidies	110,054,506	(41,522,860)	68,531,646	84,181,885	15,650,239
Public contributions and donations	67,500,000	(67,500,000)	-	25,442,694	25,442,694
Fines, Penalties and Forfeits	325,000	-	325,000	243,476	(81,524)

Total revenue from non-exchange transactions	236,262,849	(109,022,860)	127,239,989	146,821,025	19,581,036
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Total revenue	507,280,385	(94,968,908)	412,311,477	311,302,438	(101,009,039)
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Expenditure

Personnel	(138,584,390)	(3,150,919)	(141,735,309)	(130,506,873)	11,228,436
Remuneration of councillors	(4,449,308)	-	(4,449,308)	(5,109,321)	(660,013)
Depreciation and amortisation	(61,502,818)	-	(61,502,818)	(44,063,494)	17,439,324
Impairment loss/ Reversal of impairments	(13,000,000)	-	(13,000,000)	-	13,000,000
Finance costs	(3,054,517)	-	(3,054,517)	(12,635,552)	(9,581,035)
Lease rentals on operating lease	-	-	-	(3,524,953)	(3,524,953)
Debt Impairment	-	-	-	12,199,569	12,199,569
Bulk purchases	(129,413,911)	-	(129,413,911)	(128,658,730)	755,181
Contracted Services	(42,304,284)	(650,000)	(42,954,284)	(50,610,143)	(7,655,859)
Transfers and Subsidies	-	-	-	(5,381,749)	(5,381,749)
General Expenses	(56,454,324)	(11,200,000)	(67,654,324)	(43,151,203)	24,503,121
Repairs & Maintenance	(10,839,167)	-	(10,839,167)	-	10,839,167

Total expenditure	(459,602,719)	(15,000,919)	(474,603,638)	(411,442,449)	63,161,189
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Operating deficit	47,677,666	(109,969,827)	(62,292,161)	(100,140,011)	(37,847,850)
Fair value adjustments	-	-	-	(2,211,174)	(2,211,174)

Deficit before taxation	47,677,666	(109,969,827)	(62,292,161)	(102,351,185)	(40,059,024)
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Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	47,677,666	(109,969,827)	(62,292,161)	(102,351,185)	(40,059,024)	

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	1,205,016	-	1,205,016	564,603	(640,413)
Operating lease asset	-	-	-	49,882	49,882
Receivables from exchange transactions	43,464,653	-	43,464,653	-	(43,464,653)
Receivables from non-exchange transactions	3,582,245	-	3,582,245	17,959,649	14,377,404
Consumer debtors	-	-	-	35,468,005	35,468,005
Cash and cash equivalents	5,608,422	-	5,608,422	46,604,082	40,995,660
	53,860,336	-	53,860,336	100,646,221	46,785,885

Non-Current Assets

Investment property	218,401,747	-	218,401,747	206,169,270	(12,232,477)
Property, plant and equipment	1,069,607,348	-	1,069,607,348	942,870,318	(126,737,030)
Intangible assets	2,632,437	-	2,632,437	1,044,438	(1,587,999)
Heritage assets	-	-	-	74,581	74,581
	1,290,641,532	-	1,290,641,532	1,150,158,607	(140,482,925)

Total Assets	1,344,501,868	-	1,344,501,868	1,250,804,828	(93,697,040)
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Liabilities

Current Liabilities

Other financial liabilities	-	-	-	11,411,802	11,411,802
Finance lease obligation	4,592,493	-	4,592,493	3,291,568	(1,300,925)
Payables from exchange transactions	4,000,000	-	4,000,000	201,137,455	197,137,455
Taxes and transfers payable (non-exchange)	-	-	-	147,232,454	147,232,454
VAT payable	-	-	-	12,417,301	12,417,301
Consumer deposits	29,969,564	-	29,969,564	4,271,636	(25,697,928)
Unspent conditional grants and receipts	6,000,000	-	6,000,000	14,301,989	8,301,989
Provisions	2,919,565	-	2,919,565	39,098,548	36,178,983
	47,481,622	-	47,481,622	433,162,753	385,681,131

Non-Current Liabilities

Other financial liabilities	8,735,173	-	8,735,173	18,896,487	10,161,314
Finance lease obligation	12,068,038	-	12,068,038	1,455,810	(10,612,228)
Employee benefit obligation	40,490,514	-	40,490,514	44,569,865	4,079,351
	61,293,725	-	61,293,725	64,922,162	3,628,437

Total Liabilities	108,775,347	-	108,775,347	498,084,915	389,309,568
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Net Assets	1,235,726,521	-	1,235,726,521	752,719,913	(483,006,608)
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Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,235,726,521		- 1,235,726,521	752,719,913	(483,006,608)	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure		
Electricity	Straight line	3 - 55 years
Landfill Site	Straight line	0
Roads & Paving	Straight line	3 - 100 years
Sanitation	Straight line	7 - 55 years
Sewerage	Straight line	7 - 100 years
Water	Straight line	5 - 100 years
Community		
Community Facilities	Straight line	5 - 60 years
Recreational Facilities	Straight line	10 - 60 years
Buildings		
Improvements	Straight line	5 - 100 years
Other		
Bins & Containers	Straight line	5 - 15 years
Computer Equipment	Straight line	3 - 10 years
Emergency Equipment	Straight line	3 - 10 years
Furniture & Fittings	Straight line	3 - 15 years
Motor Vehicles	Straight line	4 - 15 years
Office Equipment	Straight line	3 - 15 years
Plant and Equipment	Straight line	2 - 15 years
Specialised vehicles	Straight line	10 - 20 years
Other assets	Straight line	25 - 30 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer Software & Other	Straight line	3 - 5 years

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Type of financial asset

Short term investment and call deposits
Bank balances and cash
Receivables from exchange transactions
Investments in fixed deposits

Classification in terms of GRAP 104

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Type of financial liabilities

Long term Liabilities
Creditors
Bank overdraft
Current portion of long term liabilities
Consumer deposits

Classification in terms of GRAP 104

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at fair value

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.10 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Employee benefits

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Provisions and contingencies (continued)

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.20 Budget information (continued)

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> GRAP 20: Related parties 	01 April 2019	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none"> GRAP 32: Service Concession Arrangements: Grantor 	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 108: Statutory Receivables 	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 109: Accounting by Principals and Agents 	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none"> IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land 	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 16 (as amended 2016): Investment Property 	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 17 (as amended 2016): Property, Plant and Equipment 	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 21 (as amended 2016): Impairment of non-cash-generating assets 	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 26 (as amended 2016): Impairment of cash-generating assets 	01 April 2018	Unlikely there will be a material impact

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2018		2017	
	Cost / Valuation	Accumulated depreciation and impairment	Cost / Valuation	Accumulated depreciation and impairment
Investment property	206,169,270	-	206,169,270	-
			209,870,120	209,870,120

Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	209,870,120	(1,998,670)	(1,702,180)	206,169,270

Reconciliation of investment property - 2017

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	213,468,234		(3,598,114)	209,870,120

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

3. Investment property (continued)

- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	57,626,736	-	57,626,736	57,626,736	-	57,626,736
Leasehold property	8,087,140	(4,137,855)	3,949,285	8,087,140	(2,257,243)	5,829,897
Infrastructure	1,489,258,444	(856,371,875)	632,886,569	811,006,121	(160,995,558)	650,010,563
Community	254,864,839	(141,279,922)	113,584,917	246,839,817	(124,972,814)	121,867,003
Other property, plant and equipment	39,574,664	(19,658,223)	19,916,441	37,216,653	(16,329,518)	20,887,135
Other property, plant and equipment	114,906,370	-	114,906,370	66,911,843	-	66,911,843
Total	1,964,318,193	(1,021,447,875)	942,870,318	1,227,688,310	(304,555,133)	923,133,177

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	57,626,736	-	-	-	57,626,736
Leasehold property	5,829,897	-	(1,880,612)	-	3,949,285
Infrastructure	650,010,563	14,853,516	(31,423,307)	(554,203)	632,886,569
Community	121,867,003	-	(7,348,911)	(933,175)	113,584,917
Other property, plant and equipment	20,887,135	2,468,353	(3,223,920)	(215,127)	19,916,441
Work-in-Progress	66,911,843	47,994,527	-	-	114,906,370
	923,133,177	65,316,396	(43,876,750)	(1,702,505)	942,870,318

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	57,626,736	-	-	-	-	57,626,736
Leasehold property	2,828,923	5,001,042	-	-	(2,000,068)	5,829,897
Infrastructure	679,228,437	1,004,750	-	24,427,384	(54,650,008)	650,010,563
Community	121,446,667	37,966,967	(462,772)	3,833,073	(40,916,932)	121,867,003
Other property, plant and equipment	24,449,424	596,032	(510,282)	-	(3,648,039)	20,887,135
Other property, plant and equipment	71,064,599	24,107,700	-	(28,260,456)	-	66,911,843
	956,644,786	68,676,491	(973,054)	1	(101,215,047)	923,133,177

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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4. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

The following project are taking a significantly longer period of time to complete than expected:

1. Kathu 1600 Mixed Typology Development (Coghsta took the project over and we will wait on them for the completion)	9,680,492	9,680,492
2. Constration of 7 MI resevoir & 1,7 elevated tower at Sesheng (RBIG Project and co-funding was an issue)	658,484	658,484
3. Construction of a Sewer Network in Dibeng, Phase 2 (The projects assets requires phase two and three to be completed in orderto be completed in order for the assets to be ready for use)	7,370,156	7,370,156

Projects were identified where construction or development has been halted either during the current or previous reporting period(s). These projects relate to internal funded projects and was halted due to financial constraints. These projects were all concidered for impairment and it was concluded that assets are not impaired at this point in time and the projects will be continued when funds are available as most of these projects only incurred professional fees on the planning phase.

1. Upgrading of Municipal Offices in Olifantshoek	501,376	501,376
2. Construction of ablution facility & fencing Olifantshoek	214,915	214,915
3. Multipurpose Centre Mapoteng	2,028,497	2,028,497
4. Construction of Dibeng landfill site control room & fencing	87,719	87,719
5. Construction of Control room at Olifantshoek	69,369	69,369
6. Construction of Control room at Olifantshoek Landfill Site	40,743	40,743
7. construction of Control room & fencing at Kathu Transfer Station	106,823	106,823
8. Upgrading of 1km of Hans Coetzee road in Kathu	1,082,430	1,082,430
9. Upgrading of internal roads in Olifantshoek	744,554	744,554
10. Electrification Kathu	1,141,839	1,141,839
11. Upgrading of electrical switchgear in Industrial substaion	322,150	322,150
12. Electrification of 1260 stands in Mapoteng/Sesheng	623,169	623,169
13. Electrical Transmission	112,195	112,195
14. Sesheng Engineering Civil Services	13,890,714	11,415,714
15. Water & Sanatation Development of 1300 Stands in Olifantshoek	1,065,526	1,065,526
16. Kathu West 18MI reservoir and 3MI tower	2,389,000	2,389,000
17. Resealing of Olifantshoek reservoir and Replacing of AC feeder and supply pipe	266,582	266,582
18. Development of Khai appel boreholes	967,976	-
	43,364,709	39,921,733

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Land & Buildings	505,360	203,232
Infrastructure	4,908,765	6,837,373
Other Asstes	4,265,948	8,170,939
	9,680,073	15,211,544

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,044,438	-	1,044,438	5,040,258	(3,115,262)	1,924,996

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	1,924,996	(880,558)	1,044,438

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	2,641,802	124,185	(840,991)	1,924,996

6. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	74,581	-	74,581	74,581	-	74,581

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets	74,581	74,581

Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets	74,581	74,581

7. Operating lease asset (accrual)

Current assets	49,882	65,855
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Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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8. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Post-Retirement Health Care Benefits Liability	(36,168,553)	(35,696,739)
Long Service Award Liability	(8,401,312)	(7,759,909)
	(44,569,865)	(43,456,648)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	43,509,785	47,098,033
Current service cost & benefits paid	3,063,501	1,595,808
Increase due to discounting	4,265,114	4,184,503
Contribution to provision	(1,802,365)	853,647
Actuarial gains & losses & benefits paid	(4,402,212)	(8,428,082)
Net expense recognised in the statement of financial performance	2,694,389	(1,794,124)
	47,328,212	43,509,785

Net expense recognised in the statement of financial performance

Current service cost	3,934,131	3,274,017
Interest cost	4,964,835	4,184,503
Actuarial (gains) losses	(4,402,212)	(7,632,936)
Less: Benefits paid	(1,802,365)	(1,619,708)
	2,694,389	(1,794,124)

Calculation of actuarial gains and losses (R in millions)

Actuarial (gains) losses – Obligation	(955)	(1,677)
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Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.13 %	9.16 %
Inflation rate used	6.82 %	7.20 %
Net Effective discount rate	2.17 %	1.83 %
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
Mortality tables during employment	SA 85-90	SA 85-90
Mortality tables post-retirement	PA(90)-1	PA(90)-1

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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8. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	8,688,500	6,250,800
Effect on defined benefit obligation	53,832,000	40,445,000

Amounts for the current and previous four years are as follows:(R millions)

	2018 R	2017 R	2016 R	2015 R	2014 R
Accrued liability	46,428	45,304	47,098	38,636	34,120

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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8. Employee benefit obligations (continued)

Defined contribution plan

Post-Retirement Health Care Benefits Liability

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss. He is an approved pension fund valuator and a member of the Actuarial Society of South Africa (ASSA). He is also a Fellow of the Faculty of Actuaries in the UK. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

	2018	2017
In-service Members(Employees)	273	281
Continuation Members(Retirees, widowers and orphans)	18	16

The liability in respect of past services has been estimated as follows:

In-service Member	26 913 755	26 442 183
Continuation Members	10 096 654	10 056 519

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- SAMWUMED

The Current-service Cost for the year ending 30 June 2019 is estimated to be R 2 130 161.00 whereas the cost for the ensuing year is estimated to be R 2 130 161.00 (30 June 2017 and 30 June 2018: R 2,420,370 and R..... respectively).

Long Service Awards Liability

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Longservice Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C. Weiss. He is an approved pension fund valuator and a member of the Actuarial Society of South Africa (ASSA). He is also a Fellow of the Faculty of Actuaries in the UK. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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8. Employee benefit obligations (continued)

At year end, 355 (2017: 365) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2018 is estimated to be R870 630, whereas the cost for the ensuing year is estimated to be R930 578 (30 June 2016 and 30 June 2017: R 853 647 and R 870 630 respectively).

9. Inventories

Consumable stores	125,717	351,521
Water	342,088	527,199
Fuel (Diesel, Petrol)	96,798	220,887
	564,603	1,099,607

The cost of water production for the year amounted to R9.81 per kilolitre (2017: R12.23 per kilolitre). Raw water purchased from Sishen Iron Ore amounts to 6c per kilolitre.

The cost of fuel and consumables recognised as an expense during the year amounted to R 3 773 580 (2017: R 4 620 993)

No Inventories have been pledged as collateral for Liabilities of the municipality.

10. Receivables from non-exchange transactions

Public contributions and subsidies	-	118,659
Other receivables from non-exchange revenue	2,615,203	2,664,017
Consumer debtors - Rates	15,344,446	4,581,086
	17,959,649	7,363,762

Receivables from Non-exchange Transactions have been restated to account for reclassification. Refer to Note XX on "Reallocation" for details of the restatement.

The new valuation roll was implemented with effect from 1 July 2014. The valuation of particularly mining properties increased significantly due to the sale of mining land, which raised the benchmark pricing of all properties. As a result of this adjustment the rates billed increased and causes the outstanding receivables to be at a high level.

Sundry Deposits are in respect of cash deposits made to Eskom for the supply of electricity.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

Assessment Rates Debtors - Provision for impairment

Current (0 -30 days)	(14,798,471)	(17,796,956)
31 - 60 days	(1,200,329)	(16,672,873)
61 - 90 days	(819,173)	(16,432,979)
> 90 days	(35,305,203)	(1,032,797,621)
	67,467,623	1,088,281,515

Assessment Rates Debtors - Provision for impairment

Current (0 -30 days)	(14,798,471)	(17,796,956)
31 - 60 days	(1,200,329)	(16,672,873)
61 - 90 days	(819,173)	(16,432,979)
> 90 days	(35,305,203)	(1,032,797,621)
	(52,123,176)	1,083,700,429

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
10. Receivables from non-exchange transactions (continued)		
Suspense Accounts		
> 90 days	2,732,200	2,781,014
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	23,232,593	3,783,606
31 - 60 days	2,865,179	1,753,105
61 - 90 days	2,276,311	1,197,020
> 90 days	37,311,311	25,179,370
	65,685,394	31,913,101
Less: Allowance for impairment	(51,956,402)	(28,843,479)
	13,728,992	3,069,622
Industrial/ commercial		
Current (0 -30 days)	38,406	15,784,592
31 - 60 days	14,795	15,641,708
61 - 90 days	10,954	15,560,052
> 90 days	141,571	1,008,148,665
	205,726	1,055,135,017
Less: Allowance for impairment	(166,774)	(1,054,856,951)
	38,952	278,066
Total		
Current (0 -30 days)	23,324,188	19,605,320
31 - 60 days	2,952,326	17,431,933
61 - 90 days	2,359,617	16,794,193
> 90 days	38,831,491	1,034,450,070
Suspense account	2,732,200	27,810
	70,199,822	1,088,309,326
Less: Allowance for impairment	(52,123,176)	(1,083,700,429)
	18,076,647	7,362,100
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	1,083,700,429	705,783,750
Impairment Losses Recognised	(1,031,577,253)	377,916,679
	52,123,176	1,083,700,429

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Receivables from exchange transactions		
Gross balances		
Electricity	64,812,303	50,560,101
Water	85,930,663	71,679,543
Sewerage	25,362,221	23,738,468
Refuse	36,716,371	27,027,785
Other (specify)	6,355,340	3,039,879
	219,176,898	176,045,776
Less: Allowance for impairment		
Electricity	(44,747,897)	(35,127,751)
Water	(79,568,980)	(67,148,933)
Sewerage	(23,502,091)	(20,965,256)
Refuse	(33,249,062)	(26,110,905)
Other (specify)	(2,640,863)	(2,226,760)
	(183,708,893)	(151,579,605)
Net balance		
Electricity	20,064,406	15,432,350
Water	6,361,683	4,530,610
Sewerage	1,860,130	2,773,212
Refuse	3,467,309	916,880
Other (specify)	3,714,477	813,119
	35,468,005	24,466,171
Electricity		
Current (0 -30 days)	6,648,693	4,193,677
31 - 60 days	2,305,136	3,516,913
61 - 90 days	2,859,874	2,014,025
> 90 days	8,250,703	5,707,735
	20,064,406	15,432,350
Water		
Current (0 -30 days)	2,004,953	1,153,814
31 - 60 days	986,167	509,863
61 - 90 days	1,584,531	335,603
> 90 days	1,786,032	2,531,330
	6,361,683	4,530,610
Sewerage		
Current (0 -30 days)	769,643	988,865
31 - 60 days	342,084	576,485
61 - 90 days	279,801	253,526
> 90 days	468,602	954,336
	1,860,130	2,773,212
Refuse		
Current (0 -30 days)	1,392,544	552,817
31 - 60 days	666,881	189,492
61 - 90 days	582,389	54,796
> 90 days	825,495	119,775
	3,467,309	916,880

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Receivables from exchange transactions (continued)		
Other (specify)		
Current (0 -30 days)	105,782	727,240
31 - 60 days	72,766	12,983
61 - 90 days	58,190	8,857
> 90 days	3,477,739	64,039
	3,714,477	813,119
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	12,320,761	12,722,167
31 - 60 days	7,458,685	7,232,085
61 - 90 days	7,665,904	5,618,451
> 90 days	180,944,602	123,853,637
	208,389,952	149,426,340
Less: Allowance for impairment	(183,246,609)	(138,741,413)
	25,143,343	10,684,927
Industrial/ commercial		
Current (0 -30 days)	2,801,829	4,329,829
31 - 60 days	69,181	3,455,438
61 - 90 days	47,415	1,325,278
> 90 days	498,454	11,793,027
	3,416,879	20,903,572
Less: Allowance for impairment	(462,283)	(12,838,194)
	2,954,596	8,065,378
National and provincial government		
Current (0 -30 days)	194,203	320,105
31 - 60 days	126,338	287,016
61 - 90 days	113,233	182,662
> 90 days	4,170,036	4,926,081
	4,603,810	5,715,864
Total		
Current (0 -30 days)	15,316,794	17,372,100
31 - 60 days	7,654,204	10,974,539
61 - 90 days	7,826,552	7,126,391
> 90 days	188,379,347	140,572,745
	219,176,897	176,045,775
Less: Allowance for impairment	(183,708,892)	(151,579,604)
	35,468,005	24,466,171
Less: Allowance for impairment		
Current (0 -30 days)	(4,395,178)	(9,755,689)
31 - 60 days	(3,281,169)	(6,168,802)
61 - 90 days	(2,461,766)	(4,459,584)
91 - 120 days	(173,570,780)	(131,195,530)
	(183,708,893)	(151,579,605)

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(151,579,605)	(142,947,878)
Debt impairment written off against allowance	(32,129,288)	(8,631,727)
	(183,708,893)	(151,579,605)
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	124,781	1,600
Bank balances	46,353,571	3,838,358
Short-term deposits	125,730	233,656
	46,604,082	4,073,614
13. Finance lease obligation		
Minimum lease payments due		
- within one year	5,069,128	5,571,046
- in second to fifth year inclusive	1,629,666	6,698,794
Present value of minimum lease payments	6,698,794	12,269,840
Present value of minimum lease payments due		
- within one year	3,291,568	2,182,889
- in second to fifth year inclusive	1,455,810	4,737,443
	4,747,378	6,920,332
Non-current liabilities	1,455,810	4,737,443
Current liabilities	3,291,568	2,182,889
	4,747,378	6,920,332
It is municipality policy to lease certain motor vehicles and equipment under finance leases.		
The average lease term was 3 years and the average effective borrowing rate was 10.5% to 202.23%.		
Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .		
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	-	7,054,646
Integrated National Electrification Programme Grant (INEP)	12,881,016	29,935,129
Provisional: Library	-	534,000
Water Service Infrastructure (WIL)	1,420,973	-
	14,301,989	37,523,775

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
14. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	37,523,775	18,271,594
Additions during the year	60,960,100	64,897,000
Income recognition during the year	(84,181,886)	(45,644,819)
	14,301,989	37,523,775

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

15. Other financial liabilities

At amortised cost

Annuity Loans - Non-current	18,896,487	16,661,985
Annuity Loans - Current	11,411,802	11,132,922
	30,308,289	27,794,907

Total other financial liabilities

30,308,289	27,794,907
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Annuity Loans are repaid over periods varying from 10 to 15 (2017: 10 to 15) years and at interest rates varying from 8.63% to 11.06% (2017: 8.63% to 11.06%) per annum. Annuity Loans are not secured.

The management of the municipality is of the opinion that the carrying value of Long-term liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term liabilities.

Non-current liabilities

At amortised cost	18,896,487	16,661,985
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Current liabilities

At amortised cost	11,411,802	11,132,922
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Defaults and breaches

No terms for payment have been re-negotiated by the municipality.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Long-term Service & Post employment medical aid Liability	1,847,262	(893,066)	954,196
Rehabilitation of Landfill Sites	29,414,237	8,730,115	38,144,352
	31,261,499	7,837,049	39,098,548

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Long-term Service & Post employment medical aid Liability	1,784,445	62,817	1,847,262
Rehabilitation of Landfill Sites	27,611,009	1,803,228	29,414,237
	29,395,454	1,866,045	31,261,499

Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is responsible to perform a rehabilitation of the land upon closure of the landfill site.

Neither one of the two Landfill sites are registered as official sites as they are operated without a permit. As disclosed in the Government Gazette no 10747 dated 24 July 2015, the maximum fine applicable for operating a waste disposal site under section 24G Fine Regulations of NEMA, rounds up to R10 million per site and a contingent liability has been disclosed in Note 40.

Section 24G (1) of the NEMA also stipulates that the landfill site be closed with immediate effect if no objection has been made by the municipality, therefore the provision for rehabilitation has been calculated as a current liability as at 30 June 2018. The calculation was based on cost to close and rehabilitate the site within 12 months after 30 June 2018.

17. Payables from exchange transactions

Trade payables	161,811,169	86,346,409
Retentions payable	6,483,215	4,742,238
Agency fees	49,703	-
Overtime	(239,390)	-
Employee Control account	33,032,758	-
	201,137,455	91,088,647

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality had a payment arrangement in place with ESKOM at year end, this arrangement was not settled in full during July 2018.

The management of the municipality is of the opinion that the carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
18. Payables from non-exchange		
Payment Recieved In Advance	129,152,699	36,414,059
Staff Leave	13,655,926	11,909,870
Sundry Deposits	2,132,126	2,109,344
Staff Bonus	3,545,811	3,324,025
Unallocated Deposits	(1,254,108)	16,234,510
	147,232,454	69,991,808

Staff leave and bonus accrues to the staff of the municipality on an annual basis, subject to certain conditions.

No credit period exists for payables from non-exchange transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on the payment of its creditors. No terms for payment have been renegotiated by the municipality.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

19. VAT payable

Tax refunds payables	12,417,301	4,508,145
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The municipality is registered on the payment basis for VAT purposes. Only once payment is received from debtors or payment is made to creditors, VAT is paid over to SARS.

20. Consumer deposits

Electricity & Water	4,271,636	4,455,026
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21. Revenue

Service charges	155,533,441	219,973,941
Rental of facilities and equipment	468,781	944,593
Interest received (trading)	-	248,055
Agency services	5,184,188	2,395,271
Other income - (rollup)	3,295,003	3,357,226
Property rates	36,462,868	441,057,476
Government grants & subsidies	84,181,885	47,587,776
Public contributions and donations	25,442,694	45,954,082
Fines, Penalties and Forfeits	243,476	383,992
	310,812,336	761,902,412

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	155,533,441	219,973,941
Rental of facilities and equipment	468,781	944,593
Interest received (trading)	-	248,055
Agency services	5,184,188	2,395,271
Other income - (rollup)	3,295,003	3,357,226
	164,481,413	226,919,086

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
21. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	36,462,868	441,057,476
Licences or permits	490,102	517,374
Transfer revenue		
Government grants & subsidies	84,181,885	47,587,776
Public contributions and donations	25,442,694	45,954,082
Fines, Penalties and Forfeits	243,476	383,992
	146,821,025	535,500,700
22. Service charges		
Sale of electricity	121,163,740	122,433,459
Sale of water	8,687,219	48,855,066
Solid waste	21,403,870	-
Sewerage and sanitation charges	4,278,612	28,763,076
Refuse removal	-	19,381,739
Other service charges	-	540,601
	155,533,441	219,973,941
23. Rental of facilities and equipment		
Premises		
Premises	455,206	899,966
Facilities and equipment		
Rental of facilities	13,575	44,627
	468,781	944,593
Included in the above rentals are operating lease rentals at straight-lined amounts of R 15,973 (2017: R 8,476).		
24. Other income		
Cemetry fees	(270,291)	23,288
Collection charges	3,565,294	85,047
Connection fees	-	226,025
Photocopies	-	1,820
Refuse removal fees	-	11,686
Sundry revenue	-	564,005
Tender documents	-	53,580
Valuation roll fee	-	38,855
Variuos sales	-	2,352,920
	3,295,003	3,357,226

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
25. Property rates		
Rates received		
Property rates income	36,462,868	443,496,025
Less: Income forgone	-	(2,438,549)
	36,462,868	441,057,476
Valuations		
Residential Properties	4,153,540,564	4,281,999,564
Industrial Properties	4,715,000	4,470,000
Business Properties	311,722,000	328,342,000
Agriculture Properties	4,279,198,010	1,434,925,010
Municipal Farms	58,288,050	68,288,020
State owned Properties	55,019,000	56,439,000
Municipal Properties	250,871,900	273,285,900
Public Service Infrastructure	6,611,000	6,611,000
Churches	30,390,000	36,353,000
Education	36,050,000	40,950,000
Mining Properties	17,707,923,000	20,520,025,000
Guest Houses	39,080,000	42,110,000
Small Holdings	88,600,000	83,100,000
Government Hospitals	6,700,000	6,700,000
Private Hospitals	7,000,000	7,000,000
Existing Farms - Without Dwellings	263,534,000	325,723,000
Small holdings - Without Dwellings	1,900,000	1,900,000
	27,301,142,524	27,518,221,494

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Government grants and subsidies		
Operating grants		
Equitable share	28,558,000	25,352,000
National: Finance Management Grant (FMG)	1,700,000	1,625,000
Provincial: Department of Public Works: EPWP Program	1,158,000	1,000,000
Provincial: Library	1,754,100	1,565,000
District Municipality: John Toalo Gaetsewe	-	377,957
	33,170,100	29,919,957
Capital grants		
National: Municipal Infrastructure Grant (MIG)	17,036,646	14,514,354
National: Department of Minerals & Energy (INEP)	15,396,112	3,153,465
Water Service Infrastructure Grant (WIL)	18,579,027	-
	51,011,785	17,667,819
	84,181,885	47,587,776
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R (2017: R376.35), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council.		
National: Finance Management Grant (FMG)		
Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	-	-
Conditions still to be met - remain liabilities (see note 14).		
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.		
National: MIG Funds		
Balance unspent at beginning of year	7,054,646	-
Current-year receipts	9,982,000	21,569,000
Conditions met - transferred to revenue	(17,036,646)	(14,514,354)
	-	7,054,646
The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.		
National: Department of Minerals & Energy (INEP)		
Balance unspent at beginning of year	29,935,129	17,737,594
Current-year receipts	15,000,000	22,000,000
Conditions met - transferred to revenue	(15,396,113)	(3,153,465)
Other	(16,658,000)	(6,649,000)
	12,881,016	29,935,129
Provincial: Expanded Public Works Program		
Current-year receipts	1,158,000	1,000,000

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(1,158,000)	(1,000,000)
	-	-

This grant was allocated to the municipality for the upgarding of roads within the municipal area. No funds have been withheld.

Provincial: Library

Balance unspent at beginning of year	534,000	-
Current-year receipts	1,220,100	2,099,000
Conditions met - transferred to revenue	(1,754,100)	(1,565,000)
	-	534,000

Conditions still to be met - remain liabilities (see note 14).

This grant was allocated to the municipality for community projects. No funds have been withheld.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2014), government grant funding is expected to increase over the forthcoming three financial years.

27. Public contributions and donations

Assmang proprietary limited	-	325
Sishen iron ore company (pty) ltd	25,442,694	45,953,757
	25,442,694	45,954,082

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
28. Employee related costs		
Basic	73,692,094	88,386,025
Contributions for UIF, Pension and Medical Aids	21,032,328	20,442,024
Defined contribution plans	1,503,077	(1,794,124)
Travel, motor car, accommodation, subsistence and other allowances	12,961,541	3,360,858
Overtime payments	13,119,594	7,038,093
Long-service awards	697,992	-
Housing benefits and allowances	1,393,252	1,305,150
Other # 4	3,557	-
Cellular and Telephone	6,103,438	-
	130,506,873	118,738,026
Remuneration of Municipal Manager - TC Itumeleng		
Annual Remuneration	-	1,001,860
Car Allowance	-	638,524
	-	1,640,384
Remuneration of chief finance officer - NM Grond		
Annual Remuneration	910,816	823,342
Car Allowance	500,049	533,622
Acting Allowance	500,049	-
	1,910,914	1,356,964
Mr NM Grond acted as Municipal Manager between 1 June 2017 to 28 February 2018.		
Remuneration of the Director: Community Services - RC Apools		
Annual Remuneration	779,467	681,961
Car Allowance	349,518	403,389
	1,128,985	1,085,350
Remuneration of the Director: Corporate Services - L Seetile		
Annual Remuneration	751,704	681,961
Car Allowance	422,785	403,389
	1,174,489	1,085,350
Remuneration of the Director: Infrastructure - KN Ositang		
Annual Remuneration	751,704	681,961
Car Allowance	422,785	403,389
	1,174,489	1,085,350
Remuneration of the Director: Strategic Services/Municipal Manager KJ Leserwane		
Annual Remuneration	783,909	681,961
Car Allowance	451,186	403,389
	1,235,095	1,085,350

Mr KP Leserwane is appointed as Municipal Manager asof from 1 March 2018.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
29. Remuneration of councillors		
Councillors	3,543,616	2,476,898
Company Contributions to UIF, Medical and Pension Funds	171,550	138,920
Other Allowances (Cellular Phones, Housing, Transport, etc.)	1,394,155	924,464
	5,109,321	3,540,282
In-kind benefits		
The Councillor occupying the position of the Mayor of the municipality serve in a full-time capacity. He is provided with office, accommodation and secretarial support at the expense of the municipality in order to enable him to perform his official duties.		
The Mayor has use of a Council owned vehicle for official duties.		
30. Depreciation and amortisation		
Property, plant and equipment	43,184,045	53,784,129
Intangible assets	879,449	840,991
	44,063,494	54,625,120
31. Impairment of assets		
Impairments		
Property, plant and equipment	1,702,505	47,431,898
Trade and other receivables	(13,955,595)	387,144,342
	(12,253,090)	434,576,240
32. Finance costs		
Non-current borrowings	2,513,383	2,359,549
Trade and other payables	6,724,077	3,745,345
Finance leases	3,398,092	3,044,842
Other interest paid	-	1,803,228
	12,635,552	10,952,964
33. Bulk purchases		
Electricity	111,404,056	94,473,430
Water	17,254,674	21,449,670
	128,658,730	115,923,100
34. Contracted services		
Information Technology Services	11,183,800	3,734,909
Fleet Services	26,997,886	106,066
Operating Leases	7,700,247	237,792
Specialist Services	-	29,349
Other Contractors	4,728,210	4,480,167
	50,610,143	8,588,283

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
35. General expenses		
Advertising	246,410	242,598
Auditors remuneration	4,027,638	4,021,185
Bank charges	237,371	1,011,822
Cleaning	-	87,459
Cleaning Materials	180,464	645,861
Consulting and professional fees	-	34,341,563
Legal Costs	-	1,583,697
Entertainment	71,929	142,983
Hire	42,945	-
Insurance	-	1,067,699
Conferences and seminars	-	27,000
IT expenses	13,096	-
Magazines, books and periodicals	-	17,112
Motor vehicle expenses	-	10,879
Fuel and oil	61,842	3,182,090
Postage and courier	13,307	137,395
Printing and stationery	23,641	614,234
Protective clothing	689,574	253,684
Repairs and maintenance	12,458,627	15,211,544
Staff Welfare	-	319,257
Subscriptions and membership fees	116,541	-
Telephone and Communication	1,323,253	4,841,883
Ward Comm Activities & Train	-	259,400
Training	-	590,977
Subsistence & Travelling	3,749,539	1,779,679
Valuation Roll (MSIG)	-	482,500
Assets expensed	-	180,750
Interdepartmental Charges	-	6,191,318
Stores & Materials	-	224,904
Elec Pre-Paid Meters	7,071,249	153,721
Safety Equipment	-	27,385
Membership Fees	-	1,435,680
Functions/Events	-	41,136
Special Programmes	-	12,800
Sundries	12,823,777	1,732,177
	43,151,203	80,872,372
36. Fair value adjustments		
Investment property (Fair value model)	(2,211,174)	(3,598,114)
37. Auditors' remuneration		
Fees	4,027,638	4,021,185

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
38. Cash generated from operations		
Deficit	(102,351,185)	(71,689,475)
Adjustments for:		
Depreciation and amortisation	44,063,494	54,625,120
Gain on sale of assets and liabilities	-	440,847
Leave and Bonus Accrual contribution	1,967,842	5,011,846
Rehabilitation of landfill site movement	8,730,115	1,803,228
Contribution to Employee Benefit Liability	(1,113,217)	(1,794,124)
Fair value adjustments	2,211,174	3,598,114
Finance costs - Finance leases	3,398,092	3,044,842
Impairment deficit	-	434,576,240
Debt impairment	(12,199,569)	-
Movements in operating lease assets and accruals	15,973	8,476
Movements in retirement benefit assets and liabilities	1,113,217	(1,856,940)
Movements in provisions	7,837,049	1,866,045
Asset donated fairvalue of transfer: PPE	-	(37,993,639)
Changes in working capital:		
Inventories	535,004	105,410
Receivables from exchange transactions	(7,697,413)	(31,636,114)
Consumer debtors	1,197,735	(395,876,894)
Other receivables from non-exchange transactions	(10,595,887)	18,918
Prepayments	-	13,782,315
Payables from exchange transactions	110,048,808	3,671,850
VAT	7,909,156	6,179,750
Taxes and transfers payable (non exchange)	77,240,646	13,782,315
Unspent conditional grants and receipts	(23,221,786)	19,786,181
Consumer deposits	(183,390)	(1,272,160)
	108,905,858	20,182,151
39. Commitments		
Authorised capital expenditure		
Already contracted and approved		
• Infrastructure	54,281,285	8,056,405
Total capital commitments		
Already contracted and approved	54,281,285	8,056,405
This expenditure will be financed from:		
• Government Grants	54,281,285	8,056,405
Expenditure financed		
Government Grants	54,281,285	8,056,405

This committed expenditure relates to infrastructure and will be financed by government grants.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

40. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages of R -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts.

The municipality has offered termination benefits to all of its employees to encourage early retirement. The municipality has finalised and agreed, with the trade unions, the terms and conditions of the plan. The plan has been implemented and will continue for the next nine months. Management are uncertain about the number of employees who will accept the offer.

There is no reimbursement from any third parties for potential obligations of the municipality.

An associate is being sued for violation of copyrights. The municipality's share of the potential claim amounts to R -. The associate's lawyers and management are of the opinion that the law suit will be successful but are unable to reliably determine the amount of penalties and damages payable.

The municipality is severally liable for the liabilities of its associate. The associate is profitable and is currently able to meet all of its present obligations.

Litigation is in the process against the competitor relating to a dispute whereby the competitor has infringed patents and the municipality is seeking damages. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 46, civil proceedings have commenced against the employees concerned to recover an amount. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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41. Related parties

	Mayor	Hantise	O.E.
	Ward 1	Moyo	A.J.
	Ward 1	Skeiman	M.C.
	Ward 1	Morwe	A.J.
	Ward 2	Esau	G.J.
	Ward 3	Nqume	M.F.
	Preportional	Du Plessis	H.
	Preportional	Booyesen	A.
	Preportional	Orpen	M.K.
	Preportional	Lekgadi	B.P.
	Preportional	Magagane	N.S.
	Preportional	Joseph	C.V.
	Preportional	Fourie	H.J.
Directors:	Municipal Manager	Leserwane	K.P.
	Chief Financial Manager	Grond	N.M.
	Director Corporate Services	Seetile	L.
	Director Infrastructure	Ositang	K.N.

Services rendered to related parties

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

41. Related parties (continued)

Services rendered to related parties

2018

Councillors:

Councillor: Ward 1

Executive Mayor

Councillor: PR

Councillor: PR

Councillor: PR

Section 57 Personnel:

Municipal Manager

Chief Financial Officer

Director of Infrastructure

Name:	Rates charges	Service charges	Sundry charges	Outstanding balances
D.P. Moyo	-	3,954	-	(8,680)
O.E. Hantise	-	5,791	-	3,209
A. Booysen	764	1,590	-	31,941
C.V. Joseph	8,405	843	-	32,786
H.J. Fourie	11,360	4,495	-	(2,736)
	-	-	-	-
K.P. Leserwane	-	2,621	36,000	9,213
N.M. Grond	-	2,627	36,000	14,619
H.J. Fourie	9,424	3,836	-	1,149
	-	-	-	-
	29,953	25,757	72,000	81,501

2017

Councillors:

Councillor: Ward 1

Councillor: Ward 6

Councillor: PR

Executive Mayor

Section 57 Personnel:

Municipal Manager

Director of Infrastructure

Director of Community Services

Director of Strategic Services

Name	Rates charges	Service charges	Sundry charges	Outstanding Balances
H. du Plessis	9,431	10,003	-	-
C.V. Joseph	7,899	5,944	-	39,743
O.E. Hantise	-	4,212	-	1,781
D.P. Moyo	-	52,805	-	12,595
	-	-	-	-
T.C. Itumeleng	-	-	36,000	10,255
K.N. Ositang	8,857	8,712	-	1,980
R.C. Apoolis-Sebogodi	37,343	28,424	-	70,639
K.P. Leserwane	-	437	18,000	9,000
	63,530	110,537	54,000	145,993

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

41. Related parties (continued)

Councillors/Mayoral committee members

2018

Name	Basic salary	Car and Other allowance	Cellphone allowance	Total
O.E. Hantise	583,158	181,820	30,000	794,978
A.J. Morwe	205,684	60,593	30,000	296,277
M.C. Skeiman	205,684	60,593	30,000	296,277
G.J. Esau	205,684	60,593	30,000	296,277
M.F. Nqume	205,684	60,593	30,000	296,277
D.P. Moyo	148,721	43,812	30,000	222,533
H. du Plessis	205,684	60,593	30,000	296,277
A. Booysen	205,684	60,593	30,000	296,277
M.K. Orpen	205,684	60,593	30,000	296,277
B.P. Lekgadi	205,684	60,593	30,000	296,277
N.S. Magagane	226,365	67,487	30,000	323,852
C.V. Joseph	205,684	60,593	30,000	296,277
H.J. Fourie	152,166	45,742	24,300	222,208
	2,961,566	884,198	384,300	4,230,064

2017

Name	Basic salary	Car and Other allowance	Cellphone allowance	Total
O.E. Hantise	171,361	57,120	24,468	252,949
A.J. Morwe	171,361	57,120	24,468	252,949
M.C. Skeiman	171,361	57,120	24,468	252,949
G.J. Esau	171,361	57,120	24,468	252,949
M.F. Nqume	171,361	57,120	24,468	252,949
D.P. Moyo	549,805	179,624	24,468	753,897
H. du Plessis	171,361	57,120	24,468	252,949
A. Booysen	171,361	57,120	24,468	252,949

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

41. Related parties (continued)

M.K. Orpen	171,361	57,120	24,468	252,949
B.P. Lekgadi	171,361	57,120	24,468	252,949
N.S. Magagane	171,361	57,120	24,468	252,949
C.V. Joseph	171,361	57,120	24,468	252,949
S.G. Moreeng	171,361	57,120	24,468	252,949
	2,606,137	865,064	318,084	3,789,285

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

42. Change in estimate

Property, plant and equipment

The useful life of Property, Plant and Equipment was estimated in previous years. In the current period management have revised their estimate. The effect of this revision has decreased the depreciation charges with R 9 898 407 for the current and future periods.

Intangible assets

The useful life was estimated in . In the current period management have revised their estimate. The effect of this revision has decreased the Intangible assets for the current and future periods by R 466,319

43. Prior period errors

Newly found assets were identified during the current year. The cost and depreciation values were appropriately considered. The value of buildings and infrastructure increased with the following values:

	Community Assets	Infrastructure
Cost	R 12 285 301	R 5 108 474
Accumulated Depreciation	R 5 546 472	R 1 374 267

The effect on Accumulated Deficit increase with R 10 472 087.

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Credit risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
45. Unauthorised expenditure		
Opening Balance	553,335,719	179,225,375
Unauthorised Expenditure	-	374,110,344
	553,335,719	553,335,719
46. Fruitless and wasteful expenditure		
Opening Balance	4,664,942	91,597
Fruitless and Wasteful Expenditure	6,724,077	3,745,345
	11,389,019	3,836,942
47. Irregular expenditure		
Opening balance	336,185,983	268,143,650
Add: Irregular Expenditure - current year	23,317,913	68,042,333
	359,503,896	336,185,983
Details of irregular expenditure - prior year		
	Condoned by (condoning authority)	
Goods & Service below R30 000 were obtained without going through the procurement process.	To be submitted to Council to be written off	4,184,723
Goods & Service between R30 000 and R200 000 were obtained without going through the procurement process	To be submitted to Council to be written off	13,595,114
Goods & Services above R200 000 obtained without obtaining required price quotations	To be submitted to Council to be written off	44,202,955
Procurement processes were not followed on the second appointment	To be submitted to Council to be written off	4,029,330
Procurement processes were not followed on the section 32 appointment	To be submitted to Council to be written off	2,030,211
		68,042,333
48. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government - SALGA		
Current year subscription / fee	1,519,140	1,435,680
Amount paid - current year	(379,785)	(1,435,680)
	1,139,355	-
Audit fees		
Current year subscription / fee	3,668,509	4,584,150
Amount paid - current year	(2,746,358)	(4,584,150)
	922,151	-
PAYE and UIF		
Opening balance	1,471,124	137,242
Current year deduction/declaration	20,077,123	17,676,944
Penalties & Interest accrued	333,355	178,916
Amount paid - current year	(19,956,308)	(16,205,820)
Penalties & Interest paid - current year	(333,355)	(316,158)
	1,591,939	1,471,124

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current year deduction/declaration	32,758,845	29,391,718
Amount paid - current year	(32,758,845)	(29,391,718)
	-	-

VAT

VAT payable	12,417,301	4,508,145
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Electricity

		Lost Units	Value
30 June 2018	Unaccounted Electricity Losses	19,242,300	17,190,225
30 June 2017	Unaccounted Electricity Losses	28,514,688	25,314,860

Electricity Losses occur due to technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections).

The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Volumes in kWh/year:

System Input Volume	106,200,744	107,628,464
Billed Consumption	(86,958,444)	(79,113,776)

Distribution Loss

	19,242,300	28,514,688
Percentage Distribution Loss	18.12 %	3.93 %

Loss (R):	17,190,225	25,314,860
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Water

		Lost Units	Value
30 June 2018	Unaccounted Water Losses	2,974,426	1,807,114
30 June 2017	Unaccounted Water Losses	2,897,688	12,448,135

Water Losses occur due to leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections.

The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D.P. Moyo	(8,680)	-	(8,680)
O.E. Hantise	1,162	2,048	3,210
A. Booysen	-	31,941	31,941
C.V. Joseph	2,892	29,894	32,786
H.J. Fourie	-	(2,736)	(2,736)
	(4,626)	61,147	56,521

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D.P. Moyo	7,993	4,602	12,595
O.E. Hantise	972	809	1,781
A. Booysen	-	6,142	6,142
M.K. Orpen	-	70	70
C.V. Joseph	2,903	36,840	39,743
	11,868	48,463	60,331

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

Various cases (Supplier & venue, urgency, only 1 or 2 suppliers registered on databasis, specialised products, limited to 1 supplier)	7,671,688	21,173,317
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49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

50. Risk Management

General information

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

50. Risk Management (continued)

Identification of risk management

50.1 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash and short-term investments

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the municipality have been reclassified during the year.

Aggregated segments

The municipality operates throughout the Northern Cape Province in ten cities. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Gauteng were sufficiently similar to warrant aggregation.

Risk Management

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

50.2 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

50.3 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 50.5.2 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

50.3.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

50.3.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

50.4 Credit Risk Management

Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with First National Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists based on the payment history of the parties.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Receivables from Exchange Transactions	35,468,005	24,466,169
Receivables from Non-exchange Transactions	17,959,649	7,363,762
Bank, Cash and Cash Equivalents	46,604,082	4,073,614
Maximum Credit and Interest Risk Exposure	100,031,736	35,903,545

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer Debtors:

- Household	76.89 %	89.67 %
- Industrial / Commercial	9.03 %	9.78 %
- National and Provincial Government	14.08 %	0.55 %

Total Credit Risk	100.00 %	100.00 %
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Bank and Cash Balances

First National Bank	5,338,762	2,933,265
Standard Bank	658,463	2,171,052
Total Bank and Cash Balances	5,997,225	5,104,317

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

50.5 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 50 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2018

	Total	6 months or less	6 - 12 months	1 - 2 Years	2 - 5 Years	More than 5 Years
	R	R	R	R	R	R
Non-interest bearing	3,291,568	3,291,568	-	-	-	-
- Payables from exchange transactions	3,291,568	3,291,568	-	-	-	-
Fixed interest rate instruments	27,794,907	8,775,253	2,357,669	5,043,237	11,618,748	-
Non-current liabilities	16,661,985	-	-	5,043,237	11,618,748	-
- DBSA Loan	16,661,985	-	-	5,043,237	11,618,748	-
Other current liabilities	11,132,922	8,775,253	2,357,669	-	-	-
- DBSA Loan	11,132,922	8,775,253	2,357,669	-	-	-
	31,086,475	12,066,821	2,357,669	5,043,237	11,618,748	-

30 June 2017

	Total	6 months or less	6 - 12 months	1 - 2 Years	2 - 5 Years	More than 5 Years
	R	R	R	R	R	R
Non-interest Bearing	91,088,647	91,088,647	-	-	-	-
- Payables from Exchange transactions	91,088,647	91,088,647	-	-	-	-
Fixed interest rate instruments	27,794,907	8,775,253	2,357,669	5,043,237	11,618,748	-
Other non-current liabilities	16,661,985	-	-	5,043,237	11,618,748	-
- DBSA Loan	16,661,985	-	-	5,043,237	11,618,748	-
Non-current liabilities	11,132,922	8,775,253	2,357,669	-	-	-
- DBSA Loan	11,132,922	8,775,253	2,357,669	-	-	-
	118,883,554	99,863,900	2,357,669	5,043,237	11,618,748	-

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

30 June 2017

	Total	6 months or less	6 - 12 months	1 - 2 Years	2 - 5 Years	More than 5 Years
	R	R	R	R	R	R
Non-interest bearing	35,903,545	35,903,545	-	-	-	-

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

50. Risk Management (continued)

- Trade receivables from exchange transactions	24,466,169	24,466,169	-	-	-	-
- Trade receivables from non-exchange transactions	7,363,762	7,363,762	-	-	-	-
- Cash and cash equivalents	4,073,614	4,073,614	-	-	-	-
	35,903,545	35,903,545	-	-	-	-

50.6 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

. (continued)

51. Multi employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

Defined Benefit Scheme

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013. The scheme both operates a Defined benefit and Defined contribution scheme.

The statutory valuation performed as at 30 June 2013 revealed that the fund had a deficit of R 10 million (30 June 2012: R 18 million), with a funding level of 99,7% (30 June 2012: 99,4%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Defined Contribution Schemes

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R 31,425 million (30 June 2012: (R 7,980)) million, with funding levels of 100,2% and 100,0% (30 June 2012: 99,9% and 100%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2012.

Gamagara Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

. (continued)

The valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R 1,183 (30 June 2011: R 1,041) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

National Fund for Municipal Workers - Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The net assets available for benefits were R 6,981 (2012: R 5,646) million.

The statutory valuation performed as at 1 July 2013 revealed that the fund had a deficit of R 65 (30 June 2012: R 63) million, with a funding level of 99,97% (30 June 2012: 99,89%). The contribution rate paid by the members (9%) and the municipalities (18%) is sufficient to fund the benefits accruing from the fund in the future.

Lekana Pension Fund (Previously SAMWU National Provident Fund)

The valuation performed as at 30 June 2008 revealed that the assets of the fund amounted to R 2,455,947 million (30 June 2005: R 1,511,461 million) with funding levels of 100% (30 June 2005: 100%). The contribution rate paid by the members (7,5%) and the municipalities (18%) is sufficient to fund the benefits accruing from the fund in the future. The fund is certified to be financially sound as at 30 June 2008.

Sanlam Umbrella Provident Fund

No details could be provided for the fund and of any valuation performed. The registrar granted valuation exemption to the fund and the date on which the valuation exemption for the fund will terminate is 31 December 2017. The contribution rate paid by the members is 9% and the municipality 18%.

None of the above mentioned plans are State Plans.

**Gamagara Municipality
Appendix A**

Schedule of external loans as at 30 June 2018

Loan Number	Redeemable	Balance at Friday, 30 June 2017	Received during the period	Redeemed written off during the period	Balance at Saturday, 30 June 2018	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
61000317	Expired	-	-	-	-	-	-
61000367	30/06/2021	12,336,138	1,006,692	-	13,342,830	-	-
61006899	30/06/2021	6,896,347	621,036	-	7,517,383	-	-
61006937	30/06/2021	8,562,421	885,655	-	9,448,076	-	-
		27,794,906	2,513,383	-	30,308,289	-	-
Total external loans		27,794,906	2,513,383	-	30,308,289	-	-

Development Bank of South Africa

Gamagara Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld	Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun				
Equitable Share	National Treasury	11,900,000	-	-	16,658,000	11,900,000	-	-	-	-	N/A	Yes	N/A
FMG	National Treasury	1,700,000	-	-	-	192,953	161,644	127,351	1,218,052	-	N/A	Yes	N/A
MIG	National Treasury	8,428,000	-	1,554,000	-	3,134,977	2,636,727	-	11,668,783	2,000,000	Non-Compliance	No	N/A
NEP(Municipal)	National Treasury	5,000,000	-	10,000,000	-	-	-	-	15,369,112	-	N/A	Yes	N/A
WIL	National Treasury	10,000,000	-	10,000,000	-	-	2,696,300	-	15,882,728	-	N/A		N/A
		-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-			
		37,028,000	-	21,554,000	16,658,000	15,227,930	5,494,671	127,351	44,138,675	2,000,000			